

TOWN OF MONTGOMERY, LOUISIANA

ANNUAL FINANCIAL REPORT

FOR THE SEVENTEEN MONTHS ENDED DECEMBER 31, 2011

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May 25, 2012

Independent Auditors' Report

To the Mayor and Board of Aldermen
Town of Montgomery, Louisiana

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the Town of Montgomery, as of and for the Seventeen months ended December 31, 2011, which collectively comprise the Town's basic financial statements as listed in the table of contents. These basic financial statements are the responsibility of the Town of Montgomery's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the Town of Montgomery, as of December 31, 2011, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information listed in the accompanying table of contents are not a required part of the financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquires of management regarding

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the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Montgomery's basic financial statements. The Schedule of Per Diem Paid to Board Members is presented for purposes of additional analysis and is not a required part of the basic financial statements. The Schedule of Per Diem Paid to Board Members has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respected in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued a report dated May 25, 2012, on our consideration of Montgomery's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grants agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.



ROZIER, HARRINGTON & MCKAY
Certified Public Accountants

Town Of Montgomery

Management's Discussion And Analysis ***December 31, 2011***

This section of the Town of Montgomery's annual financial report presents our discussion and analysis of the Town's financial performance during the fiscal Seventeen months ended December 31, 2011.

OVERVIEW OF FINANCIAL STATEMENTS

The basic financial statements include government-wide financial statements and fund financial statements. These two types of financial statements present the Town's financial position and results of operations from differing perspectives which are described as follows:

Government –Wide Financial Statements

The government-wide financial statements report information about the Town as a whole using accounting methods similar to those used by private-sector companies. These report all revenues and expenses regardless of when cash is received or paid. Furthermore, the government-wide statements include all of the Town's assets and all of the Town's liabilities (including long-term debt).

The government-wide financial statements are divided into two categories, which are described as follows:

- **Governmental Activities** – Expenses incurred in connection with providing basic services including police protection, fire protection, culture, recreation, public works and general administration are reported as governmental activities. The governmental activities are financed by taxes, license fees, fines, court cost, interest, grants and contributions.
- **Business-Type Activities** – Expenses associated with providing water and sewer services are recovered through fees paid by the customers that utilize these services. These activities are operated in a manner similar to commercial enterprises. Accordingly, activities associated with utility and sewer services are reported as business type activities.

Fund Financial Statements

Fund financial statements provide detailed information regarding the Town's most significant activities and are not intended to provide information for the Town as a whole. Funds are accounting devices that are used to account for specific sources of funds. The Town has two types of funds that are described as follows:

- **Governmental Funds** – These funds are used to account for essentially the same functions that are reported as governmental activities in the government-wide financial statements. However, unlike government-wide financial statements, the governmental funds use a modified accrual basis of accounting that provides a short-term view of the Town's finances. Assets reported by governmental funds are limited to amounts that are available for current needs. In addition, liabilities are limited to amounts that are expected to be paid from currently available assets.

Town Of Montgomery

Management's Discussion And Analysis

December 31, 2011

- **Proprietary Fund** – These funds are used to account for activities that function in a manner similar to commercial enterprises, including activities associated with the Town's utility and sewer services. Proprietary fund financial statements typically provide a more detail presentation of the information reported in the business-type activities portion of the government-wide financial statements.

FINANCIAL ANALYSIS OF THE TOWN AS A WHOLE

A comparative analysis of government-wide data is presented as follows:

Net Assets

A condensed version of the government-wide Statement of Net Assets is presented as follows:

	December 31, 2011			July 31, 2010
	Govern- mental Activities	Business- Type Activities	Total	
<u>Assets:</u>				
Current and Other Assets	\$ 43,226	\$ 149,364	\$ 192,590	\$ 299,851
Capital Assets	81,887	1,981,124	2,063,011	2,256,861
Total Assets	<u>125,113</u>	<u>2,130,488</u>	<u>2,255,601</u>	<u>2,556,712</u>
<u>Liabilities:</u>				
Current and Other Liabilities	7,966	89,473	97,439	107,435
Long-term Liabilities	----	----	----	----
Total Liabilities	<u>7,966</u>	<u>89,473</u>	<u>97,439</u>	<u>107,435</u>
<u>Net Assets:</u>				
Invested in Capital Assets (Net)	81,887	1,981,124	2,063,011	2,244,861
Unrestricted	35,260	59,891	95,151	191,816
Total Net Assets	<u>\$ 117,147</u>	<u>\$ 2,041,015</u>	<u>\$ 2,158,162</u>	<u>\$ 2,449,277</u>

As the presentation appearing above demonstrates, the largest portion of the Town's net assets (95.6%) is invested in capital assets. Net assets invested in capital assets consist of land, buildings, and equipment. The Town uses these capital assets to provide services to its citizens; consequently, these amounts are not available for future spending.

The remaining unrestricted net assets (4.4%) may be used to meet the Town's ongoing obligations to citizens and creditors.

Changes in Net Assets

A condensed version of the government-wide Statement of Changes in Net Assets is presented as follows:

Town Of Montgomery

Management's Discussion And Analysis **December 31, 2011**

	For the Seventeen Months Ended December 31, 2011			For the Year Ended July 31, 2010
	Govern- mental Activities	Business- Type Activities	Total	
<u>Revenues:</u>				
Program Revenue:				
Charges for Services	\$ 39,351	\$ 521,594	\$ 560,945	\$ 445,981
Operating Grants and Contributions	36,507	73,095	109,602	21,352
Capital Grants and Contributions	5,000	----	5,000	109,098
General Revenue:				
Property Taxes	35,660	----	35,660	16,750
Sales Taxes	77,142	----	77,142	50,324
Franchise Taxes	19,970	----	19,970	13,262
Occupational Licenses	23,724	----	23,724	27,890
Miscellaneous	14,636	662	15,298	8,829
Total Revenue	<u>251,990</u>	<u>595,351</u>	<u>847,341</u>	<u>693,486</u>
<u>Program Expenses:</u>				
General Government	97,578	----	97,578	76,354
Public Safety				
Police Department	152,257	----	152,257	103,979
Fire Department	56,020	----	56,020	31,499
Public Works				
Streets	21,045	----	21,045	22,746
Culture and Recreation	23,163	----	23,163	7,608
Utility System	----	788,393	788,393	507,454
Total Expenses	<u>350,063</u>	<u>788,393</u>	<u>1,138,456</u>	<u>749,640</u>
Increase in Net Assets Before Transfers	(98,073)	(193,042)	(291,115)	(56,154)
Transfers	<u>81,626</u>	<u>(81,626)</u>	<u>----</u>	<u>----</u>
Change in Net Assets	(16,447)	(274,668)	(291,115)	(56,154)
Net Assets Beginning	<u>133,594</u>	<u>2,315,683</u>	<u>2,449,277</u>	<u>2,505,431</u>
Net Assets Ending	<u>\$ 117,147</u>	<u>\$ 2,041,015</u>	<u>\$ 2,158,162</u>	<u>\$ 2,449,277</u>

Governmental activities decreased the Town's net assets by \$16,477. This decrease is attributable to depreciation expense incurred in connection with assets acquired in previous years using grant funds.

Business-type activities decreased the Town's net assets by \$291,115. Capital grants and related depreciation have contributed to the change in net assets. Since the Town has been successful in securing grant funds to improve and replace components of its utility and sewer systems, it is not considered necessary to recover depreciation through operations. Changes in net assets excluding capital grants, contributions and depreciation for the water and sewer systems are presented as follows:

Town Of Montgomery

Management's Discussion And Analysis **December 31, 2011**

	Govern- mental Activities	Business- Type Activities	Total
Change in Net Assets	\$ (16,447)	\$ (274,668)	\$ (291,115)
Depreciation	30,250	195,592	225,842
Grant Funds and Contributions Dedicated to Acquiring Capital Assets	(5,000)	----	(5,000)
Change in Net Assets Excluding Capital Grants, Contributions and Depreciation	<u>\$ 8,803</u>	<u>\$ (79,076)</u>	<u>\$ (70,273)</u>

After considering depreciation and grants, the business-type activities resulted in a decline in net assets of \$79,076. This decline is due to extensive repairs that were needed to keep the system functioning. Management believes that the repair backlog has been eliminated and repairs of an extensive nature are not anticipated in the near future.

FINANCIAL ANALYSIS OF THE TOWN'S FUNDS

For the Seventeen months ended December 31, 2011, activity in governmental funds was limited to the general fund, which experienced an increase in fund balance of \$3,802. The only differences between amounts reported by the general fund and governmental activities reported in the government-wide financial statements are attributable to including fixed assets in the government-wide presentation.

Amounts reported for business-type activities in the Town's individual funds are identical to the business-type activities reported in the government-wide presentation.

GENERAL FUND BUDGET HIGHLIGHTS

The general fund is the only fund required by law to adopt a budget. A summary of the general fund budget compared to actual amounts is presented as follows:

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Total Revenues	\$ 160,060	\$ 220,060	\$ 251,990	\$ 31,930
Total Expenditures	185,135	327,850	329,814	(1,964)
Excess (deficiency) of revenues over expenditures	(25,075)	(107,790)	(77,824)	29,966
Operating Transfers	25,075	107,790	81,626	(26,164)
Net Change in Fund Balances	<u>\$ ----</u>	<u>\$ ----</u>	<u>\$ 3,802</u>	<u>\$ 3,802</u>

The original budget adopted prior to the beginning of the fiscal year was amended in response to changing the Town's fiscal year end from July to December. Additional changes were made to provide appropriations for needs that were not anticipated when the original budget was adopted.

Town Of Montgomery

Management's Discussion And Analysis ***December 31, 2011***

CAPITAL ASSET ADMINISTRATION

Activity involving capital assets was limited to purchasing a small parcel of land and replacing equipment that reached the end of its useful life.

DEBT ADMINISTRATION

Debt has been limited to revenue bonds that were issued in connection with the construction of the sewer system. The final installment due on the revenue bonds was paid during the current year and no debt was outstanding at year end.

FACTORS EXPECTED TO AFFECT FUTURE OPERATIONS

No significant factors are expected to affect operations in the near future.

Town of Montgomery

Statement of Net Assets

December 31, 2011

	Governmental Activities	Business-Type Activities	Total
<u>ASSETS</u>			
Cash and cash equivalents	\$ 23,283	\$ 104,869	\$ 128,152
Receivables (net)	19,943	44,495	64,438
Capital assets not subject to depreciation	18,680	37,015	55,695
Depreciable capital assets, net	63,207	1,944,109	2,007,316
Total assets	125,113	2,130,488	2,255,601
<u>LIABILITIES</u>			
Accounts payable	7,966	32,142	40,108
Meter deposits	-	57,331	57,331
Total liabilities	7,966	89,473	97,439
<u>NET ASSETS</u>			
Invested in capital assets, net of related debt	81,887	1,981,124	2,063,011
Unrestricted	35,260	59,891	95,151
Total net assets (deficit)	\$ 117,147	\$ 2,041,015	\$ 2,158,162

The accompanying notes are an integral part of the financial statements.

Town of Montgomery

Statement of Activities Seventeen Months Ended December 31, 2011

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Charges for Services	Operating Grants and Contributions	Capital Grants & Contributions	Governmental Activities	Business- Type Activities	Total
Governmental Activities:						
General Government	\$ 97,578	\$ 17,533	\$ 5,000	\$ (66,195)	\$ -	\$ (66,195)
Public Safety						
Police Department	152,257	4,783	-	(116,973)	-	(116,973)
Fire Department	56,020	5,500	-	(50,520)	-	(50,520)
Public Works - Streets	21,045	1,191	-	(19,854)	-	(19,854)
Culture and Recreation	23,163	7,500	-	(15,663)	-	(15,663)
Total Governmental Activities	393,51	36,507	5,000	(269,205)	-	(269,205)
Business-Type Activities:						
Utility System	788,393	73,095	-	-	(193,704)	(193,704)
Total Business-Type Activities	788,393	73,095	-	-	(193,704)	(193,704)
Total Primary Government	\$ 1,138,456	\$ 109,602	\$ 5,000	(269,205)	(193,704)	(462,909)
General Revenues:						
Taxes:						
Ad Valorem				35,660	-	35,660
Sales Taxes				77,142	-	77,142
Franchise				19,970	-	19,970
Occupational Licenses				23,724	-	23,724
Miscellaneous				14,636	662	15,298
Transfers				81,626	(81,626)	-
Total				252,758	(80,964)	171,794
Change in Net Assets				(16,447)	(274,668)	(291,115)
Net Assets Beginning				133,594	2,315,683	2,449,277
Net Assets Ending				\$ 117,147	\$ 2,041,015	\$ 2,158,162

The accompanying notes are an integral part of the financial statements.

Town of Montgomery

Balance Sheet - Governmental Funds December 31, 2011

	General
<u>Assets</u>	
Cash and cash equivalents	\$ 23,283
Receivables (net)	19,943
Total assets	\$ 43,226
<u>Liabilities and Fund Balance</u>	
<u>Liabilities</u>	
Accounts payable	\$ 7,966
Total liabilities	7,966
<u>Fund Balance</u>	
Unassigned	35,260
Total Fund Balances	35,260
Total Liabilities and Fund Balance	\$ 43,226

Reconciliation of the Governmental Funds Balance Sheets to the Statement of Net Assets

Total Fund Balances - Governmental Funds	\$ 35,260
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	81,887
Net Assets of Governmental Activities	\$ 117,147

The accompanying notes are an integral part of the financial statements.

Town of Montgomery

Statement of Revenue, Expenditures and Changes in Fund Balance Governmental Funds Seventeen Months Ended December 31, 2011

	General
<hr/>	
Revenues:	
Taxes:	
Ad valorem	\$ 35,660
Sales Tax	77,142
Franchise	19,970
Occupational licenses	23,724
Intergovernmental	30,514
Fines and Court Cost	30,501
Miscellaneous	34,479
Total revenues	<hr/> 251,990 <hr/>
Expenditures:	
Current	
General government	93,630
Public Safety	
Police department	145,224
Fire department	37,852
Public works - streets	19,945
Culture and recreation	23,163
Capital outlay	10,000
Total expenditures	<hr/> 329,814 <hr/>
Excess (deficiency) of revenues over expenditures	(77,824)
Other sources (uses)	
Operating transfers in	81,626
Operating transfers out	-
	<hr/>
Net Change in Fund Balances	3,802
Fund balance - beginning of year	31,458
Fund balance - end of year	<hr/> \$ 35,260 <hr/>

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities

Net change in fund balances of Governmental Funds	\$ 3,802
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over estimated useful lives and reported as depreciation expense. Capital outlay and depreciation expense are presented as follows:	
Capital Outlay	10,000
Depreciation Expense	(30,249)
Change in net assets of governmental activities	<hr/> \$ (16,447) <hr/>

The accompanying notes are an integral part of the financial statements.

Town of Montgomery

Statement of Net Assets - Proprietary Funds ***December 31, 2011***

	Business-Type Activities - Enterprise Funds		
	Utility System	Sewer System	Total
<u>ASSETS:</u>			
Current Assets:			
Cash and cash equivalents	\$ 104,869	\$ -	\$ 104,869
Receivables (net)	44,495	-	44,495
Total current assets	149,364	-	149,364
Noncurrent Assets:			
Capital Assets:			
Capital assets not subject to depreciation	37,015	-	37,015
Depreciable capital assets, net	1,944,109	-	1,944,109
Total noncurrent assets	1,981,124	-	1,981,124
Total assets	2,130,488	-	2,130,488
<u>LIABILITIES:</u>			
Current Liabilities:			
Accounts payable	32,142	-	32,142
Meter deposits	57,331	-	57,331
Total current liabilities	89,473	-	89,473
Total liabilities	89,473	-	89,473
<u>NET ASSETS:</u>			
Invested in capital assets, net of related debt	1,981,124	-	1,981,124
Unrestricted	59,891	-	59,891
Total net assets (deficit)	\$ 2,041,015	\$ -	\$ 2,041,015

The accompanying notes are an integral part of the financial statements.

Town of Montgomery

Statement of Revenues, Expenses and Changes in Fund Net Assets Proprietary Funds Seventeen Months Ended December 31, 2011

	Business-Type Activities - Enterprise Funds		
	Utility System	Sewer System	Totals
<u>Operating revenues:</u>			
Charges for services	\$ 484,992	\$ -	\$ 484,992
Charges for services pledged as security for revenue bonds	-	16,158	16,158
Miscellaneous	19,665	779	20,444
Total Operating Revenues	<u>504,657</u>	<u>16,937</u>	<u>521,594</u>
<u>Operating expenses:</u>			
Salaries and payroll taxes	148,787	-	148,787
Chemicals and supplies	70,574	2,237	72,811
Laboratory testing	-	2,228	2,228
Depreciation	172,428	23,164	195,592
Gas purchases	105,829	-	105,829
Insurance	39,044	2,161	41,205
Utilities	59,539	1,157	60,696
Repairs and maintenance	145,716	3,298	149,014
Miscellaneous	11,883	348	12,231
Total operating expenses	<u>753,800</u>	<u>34,593</u>	<u>788,393</u>
Operating income (loss)	<u>(249,143)</u>	<u>(17,656)</u>	<u>(266,799)</u>
<u>Non-operating revenues (expenses):</u>			
Interest income	600	62	662
Intergovernmental grants	73,095	-	73,095
Interest expense	-	-	-
Total Non-operating revenues	<u>73,695</u>	<u>62</u>	<u>73,757</u>
Income (loss) before capital contributions and transfers	<u>(175,448)</u>	<u>(17,594)</u>	<u>(193,042)</u>
<u>Contributions and tranfers:</u>			
Capital Contributions	-	-	-
Operating tranfers in (out)	<u>807,775</u>	<u>(889,401)</u>	<u>(81,626)</u>
Change in net assets	<u>632,327</u>	<u>(906,995)</u>	<u>(274,668)</u>
Total net assets - beginning	<u>1,408,688</u>	<u>906,995</u>	<u>2,315,683</u>
Total net assets - ending	<u>\$ 2,041,015</u>	<u>\$ -</u>	<u>\$ 2,041,015</u>

The accompanying notes are an integral part of the financial statements.

Town of Montgomery

Statement of Cash Flows - Proprietary Funds **Seventeen Months Ended December 31, 2011**

	Business-Type Activities - Enterprise Funds		
	Utility System	Sewer System	Totals
<u>Cash flow from operating activities:</u>			
Cash received from customers	\$ 471,651	\$ 21,350	\$ 493,001
Cash payments to suppliers of goods and services	(417,561)	(12,531)	(430,092)
Cash payments to employees for services	(148,787)	-	(148,787)
Net cash provided (used) by operating activities	(94,697)	8,819	(85,878)
<u>Cash flows from non-capital financing activities:</u>			
Grant Proceeds	73,095	-	73,095
Operating transfers out	(24,767)	(56,859)	(81,626)
Net cash provided (used) by non-capital financing activities	48,328	(56,859)	(8,531)
<u>Cash flows from capital and related financing activities:</u>			
Cash paid for capital assets	(21,991)	-	(21,991)
Principle paid on revenue bonds	-	(12,000)	(12,000)
Interest paid on debt instruments	-	(600)	(600)
Net cash provided (used) by capital and related financing activities	(21,991)	(12,600)	(34,591)
<u>Cash flows from investing activities:</u>			
Interest and other income	600	62	662
Net cash provided (used) by investing activities	600	62	662
Net increase (decrease) in cash	(67,760)	(60,578)	(128,338)
Beginning cash balance	172,629	60,578	233,207
Ending cash balance	\$ 104,869	\$ -	\$ 104,869
<u>Reconciliation of operating income (loss) to net cash</u>			
Operating income (loss)	\$ (249,143)	\$ (17,656)	\$ (266,799)
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	172,428	23,164	195,592
(Increase) decrease in accounts receivable	(33,138)	4,413	(28,725)
(Decrease) increase in accounts and other payables	15,024	(1,102)	13,922
(Decrease) increase in meter deposits	132	-	132
Net cash provided (used) by operating activities	\$ (94,697)	\$ 8,819	\$ (85,878)

Supplemental disclosures of cash flow information:

For the seventeen months ended December 31, 2011, operating, financing, or investing activities that did not result in cash receipts or payments included the transfer of capital assets from the Sewer Fund to the Utility Fund. The capital assets transferred had a book value of \$833,542.

Town Of Montgomery

Notes To Financial Statements

December 31, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Town of Montgomery (the Town) is operated under the provisions of a Home Rule Charter adopted July 18, 1998. Under the terms of the charter, the Town is governed by its Mayor and a Town Council consisting of five members. In addition to general government operations, the Town also provides police protection, fire protection, street maintenance, sanitation, recreation, water distribution, natural gas distribution, wastewater collection and wastewater treatment.

The accompanying policies conform to generally accepted accounting principles for governmental units.

Financial Reporting Entity

As the municipal governing authority, for reporting purposes, the Town is considered a separate financial reporting entity. The financial reporting entity consists of (a) the primary government (the Town), (b) organizations for which the primary government is financially accountable, and (c) other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

Governmental Accounting Standards Board (GASB) Statement No. 14 established criteria for determining which component units should be considered part of the Town of Montgomery for financial reporting purposes. The basic criterion for including a potential component unit within the reporting entity is financial accountability. The GASB has set forth criteria to be considered in determining financial accountability. This criteria includes:

1. Appointing a voting majority of an organization's governing body, and
 - a) The ability of the Town to impose its will on that organization and/or
 - b) The potential for the organization to provide specific financial benefits to or impose specific financial burdens on the Town.
2. Organizations for which the Town does not appoint a voting majority but are fiscally dependent on the Town.
3. Organizations for which the reporting entity financial statements would be misleading if data of the organization is not included because of the nature or significance of the relationship.

Based upon application of these criteria, there were no potential component units and all of the Town's activities were included in the primary government reporting entity.

Town Of Montgomery

Notes To Financial Statements

December 31, 2011

Basic Financial Statements

The basic financial statements include both government-wide and fund financial statements. Both government-wide and fund financial statements categorize activities as either governmental activities or business-type activities, which are described as follows:

- Governmental activities involve government services that are normally supported by taxes and intergovernmental revenues.
- Business-type activities rely on fees and charges for support and operate in a manner similar to private sector enterprises.

The government-wide and fund financial statements present the Town's financial position and results of operations from differing perspectives which are described as follows:

Government-Wide Financial Statements

The Statement of Net Assets and the Statement of Activities display information about the Town as a whole. The effect of most interfund activity is eliminated from these financial statements. Furthermore, government-wide financial statements exclude any fiduciary activities which are reported in the fund financial statements.

Program revenues reported in the Statement of Activities consist of amounts that are directly associated with a governmental service or business-type activity. Program revenues include charges for services, fines, court cost, contributions associated with a particular function and most grants.

Fund Financial Statements

Funds are separate accounting entities that are designed to assist with demonstrating legal compliance and segregating transactions by activity. Separate financial statements are provided for governmental funds and proprietary funds. In addition, separate financial statements are presented for any fiduciary activities. Major individual funds are reported as separate columns in the fund financial statements. The Town's major funds are described as follows:

- Governmental Funds – The Town's only active major governmental fund is its general fund. The general fund is the primary operating fund and is used to account for all governmental activities.
- Proprietary Funds – Are used to account for business type activities. Until January, 2011, the operations of the Town's Utility System and Sewer System each utilized separate proprietary funds. Sewer System operations were reported in a separate fund because revenue from the sewer system was pledged to secure revenue bonds issued to construct the Sewer System. In January, the Town made the final payment due on the bonds and the Sewer System Fund was discontinued. Sewer System activities are currently reported in the Utility Fund.

Town Of Montgomery

Notes To Financial Statements

December 31, 2011

Revenue earned in exchange for providing services is reported as operating income and revenue from other sources is reported as non-operating. Since proprietary funds operate in a manner similar to business enterprises, these funds follow certain pronouncements that are developed by the Financial Accounting Standards Board (FASB) for business enterprises. However, the Town only applies those FASB pronouncements that were issued on or before November 30, 1989.

Basis Of Accounting and Measurement Focus

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied. The basis of accounting and measurement focus used for various financial statement presentations are described as follows:

<u>Financial Statement Presentation</u>	<u>Basis of Accounting</u>	<u>Measurement Focus</u>
Government-Wide Financial Statements	Accrual Basis	Economic Resources
Fund Financial Statements:		
Governmental Funds	Modified Accrual Basis	Current Financial Resources
Proprietary Funds	Accrual Basis	Economic Resources
Fiduciary Funds	Accrual Basis	Economic Resources

Under the accrual basis of accounting and the economic resources measurement focus, revenues are recorded when earned and expenses are recorded when a liability is incurred.

Under the modified accrual basis of accounting and the current financial resources measurement focus revenue is recognized when it is considered measurable and available. Revenue is considered available if it is collected within 60 days of year end. In addition, expenses are generally recorded when a liability has been incurred; however, debt service, compensated absences, claims and judgments are recorded as expenses when payment is made. Furthermore, when the current financial resources measure focus is used, amounts recorded as assets exclude capital assets and the acquisition of capital assets is treated as an expenditure. In addition, long-term debts are excluded from amounts reported as liabilities. Proceeds from issuing long-term debt is reported as an other financing source and repayment of long-term debt is reported as an expenditure.

Non-Exchange Transactions

Revenue from certain non-exchange transactions cannot be properly measured prior to collection. Furthermore, it is not practical to determine the probability of collection resulting from certain non-exchange transactions such as traffic citations. Consequently, revenue from certain franchise taxes, fines and court cost is not recognized until it is collected.

Use Of Estimates

The preparation of financial statement in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Town Of Montgomery

Notes To Financial Statements

December 31, 2011

Restricted Assets

Restricted assets represent resources that must be expended in a specific manner. Restrictions of this nature are imposed by various contractual obligations including grant agreements and bond covenants. In situations where it is permissible to spend restricted resources, the Town typically depletes the available restricted resources before consuming unrestricted resources.

Deferred Revenues

Deferred revenues represent grant funds not fully expended at the end of the year. Grant fund revenues are recognized in the subsequent year as funds are expended to complete the obligations of the grant agreement.

Budget Practices

Budget practices are governed by the Town's Home Rule Charter. In general, the Home Rule Charter considers the final budget from the previous year to be the original budget unless another original budget is adopted prior to the beginning of the year. Budgets are prepared for the Town's general fund by the Town Clerk under the supervision. Upon completion, the budget is submitted to the Board of Aldermen for approval. If amendments are necessary, the amended budgets are prepared and approved in the same manner as the original budget. The budget presents revenue and expenditures on a basis which is consistent with generally accepted accounting principles.

Capital Assets

Capital assets are carried at historical cost including interest incurred during construction. Infrastructure capital assets consisting of streets, bridges, sidewalks and drainage systems acquired before August 1, 2003 are excluded from capital assets. Depreciation associated with capital assets is computed using the straight-line method over the estimated useful lives of the assets.

Cash And Cash Equivalents:

Amounts reported as cash and cash equivalents (restricted and unrestricted) include all cash on hand, cash in bank accounts, certificates of deposit and highly liquid investments. Credit risk associated with bank deposits is limited by requiring fiscal agent banks to pledge securities as required by State Law. Furthermore, interest rate risk associated with certificates of deposits is typically mitigated by purchasing instruments that mature in one year or less.

Statement Of Cash Flows:

For the purpose of reporting cash flows, cash and cash equivalents includes all cash on hand, cash in banks and certificates of deposit.

NOTE 2 - CASH AND CASH EQUIVALENTS

At December 31, 2011, cash balances were fully secured by FDIC coverage.

NOTE 3 - RECEIVABLES

Details related to receivables at December 31, 2011 are presented as follows:

Town Of Montgomery

Notes To Financial Statements **December 31, 2011**

	<u>Governmental</u>	<u>Business-Type</u>
Sales taxes	\$ 9,101	\$ ----
Ad valorem taxes	2,950	----
Franchise tax	2,661	----
Grants	2,000	4,022
Miscellaneous	3,231	----
Utility and sewer revenues	----	51,473
Allowance for doubtful accounts	----	(11,000)
Total receivables	<u>\$ 19,943</u>	<u>\$ 44,495</u>

NOTE 4 – ACCOUNTS PAYABLE

At December 31, 2011, accounts payable consisted entirely of amounts payable to vendors in the ordinary course of business.

NOTE 5 - LONG-TERM DEBT

The following is a summary of transactions involving long-term debt for the Seventeen months ended December 31, 2011:

Bonds payable, July 31, 2010	\$ 12,000
New issues	----
Retirements	(12,000)
Bonds payable, December 31, 2011	<u>\$ ----</u>

NOTE 6 - AD VALOREM TAXES

The Town bills and collects its own property taxes using the assessed values determined by the Tax Assessor of Grant Parish. For the Seventeen months ended December 31, 2011, the Town levied 9.12 mills for general corporate purposes.

Ad valorem taxes are assessed on a calendar year basis and are due on or before December 31 in the year the tax is levied. Revenues from ad valorem taxes are recognized as revenue in the year billed.

NOTE 7 – CAPITAL ASSETS

A summary of the property and equipment reported by the Town's enterprise funds at December 31, 2011 consists of the following:

Town Of Montgomery

Notes To Financial Statements

December 31, 2011

	Beginning Balance	Additions	Disposals	Ending Balance
<u>Governmental Activities</u>				
Land	\$ 13,680	\$ 5,000	\$ ----	\$ 18,680
<u>Assets Being Depreciated:</u>				
Buildings and Improvements	\$ 118,703	----	----	\$ 118,703
Machinery and Equipment	529,307	5,000	----	534,307
Total	648,010	5,000	----	653,010
Less Accumulated Depreciation	559,554	30,249	----	589,803
Total Net of Depreciation	\$ 88,456	\$ (25,249)	\$ ----	\$ 63,207
<u>Business-Type Activities</u>				
Land	\$ 37,015	\$ ----	\$ ----	\$ 37,015
<u>Assets Being Depreciated:</u>				
Equipment	\$ 133,783	\$ 21,991	\$ ----	\$ 155,774
Gas Distribution System	596,179	----	----	596,179
Sewer System	1,775,225	----	----	1,775,225
Water Distribution System	2,031,402	----	----	2,031,402
Total	4,536,589	21,991	----	4,558,580
Less Accumulated Depreciation	2,418,879	195,592	----	2,614,471
Total Net of Depreciation	\$ 2,117,710	\$ (173,601)	\$ ----	\$ 1,944,109

Depreciation expense reported by various functions is presented as follows:

<u>Governmental Activities:</u>	
General Government	\$ 3,948
Police Department	7,033
Fire Department	18,168
Streets	1,100
Total Depreciation – Governmental Activities	\$ 30,249
<u>Business-Type Activities:</u>	
	\$ 195,592

NOTE 8- RISK MANAGEMENT

The Town is exposed to various risks of loss related to torts; theft, damage or destruction of assets; errors and omissions; injuries to employees; and natural disasters.

Town Of Montgomery

Notes To Financial Statements

December 31, 2011

The Town insures against these risks by participating in a public entity risk pool that operates as a common insurance program and by purchasing commercial insurance. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

NOTE 9 – OPERATING TRANSFERS

In order to supplement the general fund and provide resources necessary for the general fund to meet its obligations, various funds have provided transfers to the general fund. These transfers are summarized as follows:

	Transfers In (Out)		
	General Fund	Utility Fund	Sewer Fund
Transfers from funds with unrestricted surpluses to funds in need of additional resources	\$ 81,626	\$ (65,626)	\$ (16,000)
Transfer to the Utility Fund in order to close out the Sewer Fund as discussed in Note 1	----	873,401	(873,401)
	<u>\$ 81,626</u>	<u>\$ 807,775</u>	<u>\$ (889,401)</u>

NOTE 10 – CONTINGENCIES

Existing conditions that may have financial consequences are referred to as contingencies. Contingencies existing at December 31, 2011 are described as follows:

Litigation

Like most governmental units with extensive and diverse operations, the Town is occasionally named as a defendant in litigation. Based on consultation with Town's Attorney, the ultimate outcome of litigation that is pending or anticipated cannot be estimated at the present time; however, exposure to losses are expected to be limited to the deductible provisions of insurance policies.

Town of Montgomery

General Fund

Statement of Revenues, Expenditures and Changes in Fund Balances

Budget and Actual

Seventeen Months Ended December 31, 2011

	Budget Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final	Amounts	
<u>Revenues:</u>				
Taxes	\$ 80,000	\$ 116,200	\$ 132,772	\$ 16,572
Occupational licenses	30,000	25,000	23,724	(1,276)
Intergovernmental	18,000	15,000	30,514	15,514
Fines and Court Cost	23,000	35,000	30,501	(4,499)
Miscellaneous	9,060	28,860	34,479	5,619
Total revenues	<u>160,060</u>	<u>220,060</u>	<u>251,990</u>	<u>31,930</u>
<u>General Government:</u>				
Current				
General government	64,250	130,850	93,630	37,220
Public Safety				
Police department	85,000	142,000	145,224	(3,224)
Fire department	13,535	30,000	37,852	(7,852)
Public works				
Sanitation	2,500	1,000	-	1,000
Streets	12,050	13,000	19,945	(6,945)
Culture and recreation	2,800	6,000	23,163	(17,163)
Capital outlay	5,000	5,000	10,000	(5,000)
Total expenditures	<u>185,135</u>	<u>327,850</u>	<u>329,814</u>	<u>(1,964)</u>
Excess (deficiency) of revenues over expenditures	<u>(25,075)</u>	<u>(107,790)</u>	<u>(77,824)</u>	<u>29,966</u>
Other sources (uses)				
Operating transfers in	25,075	107,790	81,626	(26,164)
Operating transfers out	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balances	<u>-</u>	<u>-</u>	<u>3,802</u>	<u>3,802</u>
Fund balance - beginning of year	<u>31,458</u>	<u>31,458</u>	<u>31,458</u>	<u>-</u>
Fund balance - end of year	<u>\$ 31,458</u>	<u>\$ 31,458</u>	<u>\$ 35,260</u>	<u>\$ 3,802</u>

TOWN OF MONTGOMERY
SCHEDULE OF PER DIEM PAID TO BOARD MEMBERS
Seventeen Months Ended December 31, 2011

Steven Gunn, Mayor	\$ 1,300
Vera Waters, Mayor	3,120
Denise Pearson	1,375
Joann Lary	375
Joe Allen	1,000
Von Gilcrease	925
Jack Rushing	1,000
John Savant	1,375
J.C. Carter	375
Velma Fletcher	<u>300</u>
Total	<u><u>\$ 11,145</u></u>

ROZIER, HARRINGTON & MCKAY

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RETIRED - 2005

May 25, 2012

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Mayor and Board of Aldermen
Town of Montgomery, Louisiana

We have audited the financial statements of the governmental activities, the business-type activities, and each major fund of the Town of Montgomery, as of and for the Seventeen months ended December 31, 2011, which collectively comprise the Town of Montgomery's basic financial statements and have issued our report thereon dated May 25, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

INTERNAL CONTROL OVER FINANCIAL REPORTING

Management is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Town of Montgomery's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Town's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We

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did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the Town of Montgomery's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as item 2011-1.

This report is intended for the information and use of management and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in blue ink, reading "Robin Harrington & McKay", with a large, stylized flourish extending from the end of the signature.

ROZIER, HARRINGTON & McKAY
Certified Public Accountants

Town Of Montgomery

Schedule of Findings and Questioned Cost **For the Seventeen Months Ended December 31, 2011**

PART I - SUMMARY OF AUDITOR'S RESULTS:

- The Independent Auditors' Report on the financial statements of the Town of Montgomery as of December 31, 2011 and for the year then ended expressed an unqualified opinion.
- The audit did disclose any audit findings which are required to be reported as reportable conditions or material weaknesses.
- The results of the audit disclosed an instance of noncompliance that is considered to be material to the financial statements of the Town of Montgomery.

PART II - FINDINGS RELATING TO THE FINANCIAL STATEMENTS WHICH ARE REQUIRED TO BE REPORTED IN ACCORDANCE WITH GENERALLY ACCEPTED GOVERNMENTAL AUDITING STANDARDS:

2011-1: Budget Adoption

State law requires amended budgets to be adopted before the end of the fiscal year. However, the Town's amended budget for the period ended December 31, 2011 was not adopted until 2012. In the future, we suggest taking action to adopt budgets prior to the conclusion of the year.

PART III - FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS WHICH SHALL INCLUDE AUDIT FINDINGS AS DEFINED BY OMB CIRCULAR A-133:

- None.

Town Of Montgomery

Management's Corrective Action Plan

For the Seventeen Months Ended December 31, 2011

SECTION I INTERNAL CONTROL AND COMPLIANCE MATERIAL TO THE FINANCIAL STATEMENTS.	
<u>2011-1: Budget Adoption</u> State law requires amended budgets to be adopted before the end of the fiscal year. However, the Town's amended budget for the period ended December 31, 2011 was not adopted until 2012. In the future, we suggest taking action to adopt budgets prior to the conclusion of the year.	<u>2011-1: Response</u> Implementation of the recent change in the Town's fiscal year end disrupted the timing of the budget process. In the future, we will take action to ensure that the timing of budget adoption conforms with our fiscal year end to ensure that budgets are adopted in a timely manner.
SECTION II INTERNAL CONTROL AND COMPLIANCE MATERIAL TO FEDERAL AWARDS	
No findings that are material to the financial statements were reported.	Response – N/A
SECTION III MANAGEMENT LETTER	
No management letter was issued.	Response – N/A

Town Of Montgomery

Schedule Of Prior Year Findings And Questioned Cost For the Seventeen Months Ended December 31, 2011

SECTION I INTERNAL CONTROL AND COMPLIANCE MATERIAL TO THE FINANCIAL STATEMENTS.	
<u>2010-1: Budget Violations</u> For the Town's general fund, expenditures exceeded appropriations by more than the variances allowed by state law.	<u>2010-1: Resolved</u> For the current period, expenditures were within limits prescribed by State Law.
<u>2010-2: Payroll Taxes</u> As an employer, the Town is required to remit payroll taxes to taxing authorities within a specified period of time. In addition, the Town is required to file payroll tax returns at the end of each calendar quarter. However, the Town has not fulfilled the payroll tax related requirements in the prescribed manner. As a result of these actions, the Town could be exposed to substantial penalties.	<u>2010-1: Resolved</u> For the current period, payroll tax obligations have been satisfied in a timely manner.
SECTION II INTERNAL CONTROL AND COMPLIANCE MATERIAL TO FEDERAL AWARDS	
No findings of this nature were reported as a result of the previous audit.	Response – N/A
SECTION III MANAGEMENT LETTER	
No findings of this nature were reported as a result of the previous audit.	Response – N/A